

Required Report - public distribution

Date: 4/8/2009

GAIN Report Number: PE9005

Peru

SUGAR ANNUAL

Annual

Approved By:

Eugene Philhower

Prepared By:

Gaspar E. Nolte

Report Highlights:

Cane sugar production continues increasing and is expected to reach 1.05 MMT in CY 2009. Post estimates that Peru should reach a surplus by CY 2011. Though there is no ethanol production yet, there are large projects in the pipeline that will start production in the upcoming years.

Commodities:

Sugar, Centrifugal

Production:

Production

Cane sugar production for CY 2009 is forecast at 1.05 MMT, from one million metric tons CY 2008. Good weather conditions, strong investment in new plantations, and more efficient processing plants will drive this increase. Post believes that sugar production in Peru will continue increasing in the upcoming years, reaching a surplus by 2011.

Sugar cane production is forecast at 9.72 MMT in CY 2009. Sugar mills in Peru are located along the coast and have a total milling capacity of 37,000 MT of cane per day. Since sugar cane in Peru is produced year round, mills do not need to be very large. Yields and cane age vary greatly from one producer to another. Yields range from 53 to 190 MT of cane per hectare and age varies from 13 to 18 months between cuts. Production costs also vary considerably, with fuel being one of the most important. Fuel utilization ranges from 5 to 90 gallons per metric ton of sugar produced. The Peruvian northern coast has excellent conditions for growing sugar cane due to high temperatures and lack of rain. All cultivation is surface irrigated, allowing producers to cut the supply of water at a given time to obtain higher sucrose yields. Under normal weather conditions, and provided the cane is milled on time, sucrose yields are around 12 percent.

Despite the ongoing economic crisis, the Peruvian northern coast, where almost the entire sugar crop is produced, continues undergoing a radical change driven by a private investment "fever". Land is being purchased by Peruvian and foreign investors, followed by the consolidation of property. The efficiency brought by economies of scale is improving return rates, which attracts more investment, generating a beneficial cycle. It is quite common to see bulldozers flattening sand dunes to plant more sugar in the desert. This process is finally undoing the damage done by the catastrophic 1968 land reform that expropriated land to give to workers in socialist type cooperatives.

Sugar and Cane Production by Mill 2008										
Producer	Pucalá	Tumán	Pomalca	Casa Grande	Cartavio	Laredo	San Jacinto	Paramonga	Andahuasi	Chucarapi
Cane Milled	914,897	1,011,968	713,041	1,852,396	1,396,272	1,097,195	628,015	1,025,335	616,517	90,685
Sugar Production	90,573	104,322	71,884	215,831	140,224	126,619	64,525	113,245	69,950	7,365
Processing Yield (1)	10.10	9.70	9.92	8.58	9.96	8.67	9.73	9.05	8.81	12.31

(1) MT of cane per MT of sugar

Gloria, Peru's largest dairy processor, acquired Casa Grande in 2006, and is implementing a \$60 million investment plan to upgrade the mill and renew plantations. Gloria also owns Cartavio, the second largest sugar company. Casa Grande has access to 30,000 hectares, but only about 12,000 hectares are under production. Similarly, its milling capacity

(10,000 MT of cane per day, a third of Peru's total capacity) operates at less than 50 percent. Casa Grande could at least double its sugar production very rapidly by both planting currently idle lands and improving yields through technological changes. Ethanol production is also an important project that investors are evaluating.

Cartavio, Peru's second largest sugar producer, has invested \$70 million in the past eight years to improve its production, yields, and processing efficiency. However, there still are some mills, such as Pomalca and Tuman, which refuse to merge with a strategic partner and continue to languish in a financial black hole. Political parties have a strong influence on these companies' workers and are often a source of political unrest. The leadership of these companies, who have been in office for over three decades, have made a good living off the status quo and are the least interested in finding a strategic partner. In an effort to encourage investment in these companies, the GOP is auctioning its shares to interested private sector companies. Government acquired shares were the result of a conversion of unpaid taxes.

Market Distribution by Company 2008		
Company	Market Share (%)	Accumulative Share (%)
Casa Grande	21.49	21.49
Cartavio	13.96	35.44
Laredo	12.60	48.05
Paramonga	11.27	59.32
Tuman	10.39	69.71
Pucala	9.02	78.72
Pomalca	7.16	85.88
Andahuasi	6.96	92.84
San Jacinto	6.42	99.27
Chucarapi	0.73	100.00

Ethanol production from sugar cane is one of the main reasons Peru is seeing increased investment in the sugar industry. In 2003, the GOP passed Law 28054, which promotes the use of environmentally friendly "biofuel". This law encourages the substitution of highly contaminating components for more environmentally friendly elements. The estimated investment for ethanol production is roughly \$130 million, about 40 percent for adjusting mills and 60 percent to increase area planted. A 100,000-liter per day ethanol plant costs around \$6-8 million. The industry estimates that around 7.8 percent of the gasoline and 5 percent of diesel could be replaced by ethanol. However, there are tax

issues that remain unresolved, such as whether ethanol would be subject to the excise tax or not.

When the domestic law is finalized, investors are aiming at the United States as their primary market. Under the U.S. - Peru Trade Promotion Agreement, ethanol from Peru is granted duty free access. A Peruvian and a U.S. company have already bought 10,000 hectares each to begin sugar cane plantations to supply the ethanol market.

Consumption:

Cane sugar consumption is forecast at 1.18 MMT in CY 2009, around 70 percent of which is for direct consumption and the remaining for industrial use. As the Peruvian economy improves, sugar demand will increase, especially for sugar based beverages and confectionary products.

Retail Sugar Price in 2008 (U.S. \$)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Refined	0.641	0.625	0.619	0.613	0.610	0.600	0.600	0.597	0.590	0.597	0.597	0.590
Brown	0.552	0.537	0.527	0.517	0.511	0.511	0.505	0.508	0.502	0.502	0.495	0.492

Trade:

Peruvian sugar exports in CY 2009 are estimated at about 50,000 MT. Peru is practically the only exporter of sugar to the United States under the U.S. sugar tariff-rate quota. The U.S. quota is distributed by the Ministry of Agriculture among the sugar mills, in coordination with the Peruvian Sugar and Biofuels Producers Association (APPAB).

Due to increased production, sugar imports in CY 2008 are forecast to fall 21 percent to 170,000 MT. With a market share of 49 percent, Colombia continued to be the lead sugar exporter to Peru in CY 2008. Bolivia and Guatemala followed with 23 and 12 percent of the market, respectively.

U.S. - Peru Trade Promotion Agreement (TPA)

The U.S. - Peru Trade Promotion Agreement includes five-year linear tariff reductions for glucose and fructose. These reductions start at a tariff level of 17 percent and 30 percent for glucose and fructose, respectively, with duty free access in six years.

Policy:

After years of social unrest and economic bankruptcy, the Peruvian sugar industry has finally recovered from the disrupting land reform of the 1970s. This ongoing process has resulted in the privatization of most mills, increased investment and productivity. However, there are still some mills that refuse privatization despite their outstanding debt and inability to make payments as well as their inefficient production. Peru is finally expected to become self sufficient again in the upcoming two years, perhaps with a surplus of as much as 200,000 MT by 2011.

Only one of the mills (Andahuasi) that decided not to sell shares has developed an investment plan to upgrade its mills and renovate plantations. This is the only case of a mill that has not sold shares and is successful. The other mills are virtually broke. A

general unrest among the workers/owners of these ex-cooperatives continues to be the major obstacle for privatization. Political manipulation has led workers to believe that their land is the best in the country and they have overpriced it, not taking into account the major debts carried by the cooperative.

Sugar cane is assessed 9 percent import tariff and is also subject to the price band system, which is a surcharge assessed depending on the international prices (the lower the international price, the higher the tax). CAN member countries, however, are granted duty free access.

Production, Supply and Demand Data Statistics:

Sugar Cane for Centrifugal Peru	2008			2009			2010		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Planted	81	81	81	81	81	81			82
Area Harvested	68	68	68	70	70	74			76
Production	8,246	8,246	8,343	8,300	8,300	9,346			9,720
Total Supply	8,246	8,246	8,343	8,300	8,300	9,346			9,720
Utilization for Sugar	8,246	8,246	8,343	8,300	8,300	9,346			9,720
Utilization for Alcohol	0	0	0	0	0	0			0
Total Utilization	8,246	8,246	8,343	8,300	8,300	9,346			9,720

Sugar, Centrifugal Peru	2008			2009			2010			
	2007/2008			2008/2009			2009/2010			
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan	
			Data			Data			Data	
Beginning Stocks	99	38	99	210	96	65			35	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0			0	(1000 MT)
Cane Sugar Production	975	910	908	995	995	1,005			1,050	(1000 MT)
Total Sugar Production	975	910	908	995	995	1,005			1,050	(1000 MT)
Raw Imports	23	23	23	8	20	3			10	(1000 MT)
Refined Imp.(Raw Val)	223	223	164	140	150	204			160	(1000 MT)
Total Imports	246	246	187	148	170	207			170	(1000 MT)
Total Supply	1,320	1,194	1,194	1,353	1,261	1,277			1,255	(1000 MT)
Raw Exports	60	48	49	60	50	62			50	(1000 MT)
Refined Exp.(Raw Val)	0	0	0	0	0	0			0	(1000 MT)
Total Exports	60	48	49	60	50	62			50	(1000 MT)
Human Dom. Consumption	1,050	1,050	1,080	1,100	1,100	1,180			1,180	(1000 MT)
Other Disappearance	0	0	0	0	0	0			0	(1000 MT)
	1,050	1,050	1,080	1,100	1,100	1,180			1,180	(1000 MT)
Ending Stocks	210	96	65	193	111	35			25	(1000 MT)
Total Distribution	1,320	1,194	1,194	1,353	1,261	1,277			1,255	(1000 MT)

Import Trade Matrix	
Country	Peru
Commodity	Sugar, Centrifugal
Time Period	CY 2008
Imports from:	
U.S.	0
Others	
Colombia	102,166
Bolivia	46,814
Guatemala	24,538
Brazil	13,499
Total for Others	187,017
Others not Listed	19,879
Grand Total	206,896

Units: Metric Tons